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Jim

**1977
ANNUAL
REPORT**



O P I LTD.

(Incorporated Under the Laws of Alberta)

1977 ANNUAL REPORT

Directors

P. S. Bower **	Carmel, California
L. C. Garries ±	Edmonton, Alberta
G. W. Davies ±	Toronto, Ontario
Nelson M. Davis	Toronto, Ontario
Harry Hole	Edmonton, Alberta
F. N. Hughes ±	Edmonton, Alberta
M. E. Jones, Q.C.	Calgary, Alberta
Barron Kidd ± **	Dallas, Texas
Doyle Little	Odessa, Texas
Bruce H. Lloyd	Willowdale, Ontario
Honorable	
Ernest C. Manning, P.C.	Edmonton, Alberta
V. J. Moroney **	Calgary, Alberta
J. D. McLaughlin ±	Midland, Texas
L. F. Swonek ±	Edmonton, Alberta

± Member of Management Committee

** Member of Audit Committee

Officers

Chairman	Barron Kidd
Vice-Chairman	F. N. Hughes
President, Chief	
Executive Officer	L. C. Garries
Vice-President —	
Finance and Secretary	L. F. Swonek

Head Office

5105 - 75 Street, Edmonton, Alberta

Transfer Agent and Registrar

Guaranty Trust Company of Canada

Exchange Listing

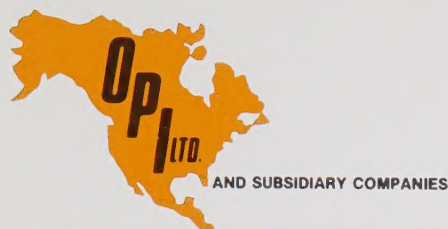
Toronto Stock Exchange

Auditors

Thorne Riddell & Co., Edmonton, Alberta

Annual Meeting

The Annual Meeting of the Shareholders of the Company will be held at the Chateau Lacombe, Edmonton, Alberta, at 11:30 a.m. on Friday, January 27, 1978.



O P I LTD. was incorporated in Alberta in 1960, became a public company in 1969 and expanded into the United States in 1973. The company operates in Canada and through its wholly owned subsidiary, O P I Inc. in the U.S.A. The undernoted divisions provide goods and services primarily to the oil and gas industry. Agents represent the Cougar line in the United States, North Sea, Middle East and East Asia.

Oil Patch Rentals — operates a general oilfield rental operation, mainly in Canada.

Gist Pumps — manufactures triplex pumps, fluid ends and parts in Odessa, Texas, which are marketed on a world wide basis.

Cougar Tool — rents down hole tools directly to Canadian users and through agents in the United States, North Sea and the Middle East. The tools are manufactured in Edmonton and Odessa at company owned plants.

O P I Machine Shop — located in Edmonton, does general oilfield manufacturing and repair, and is largely responsible for the production of Cougar's down hole tools.

Centralizer and Scratcher — markets centralizers, scratchers and related items in the Permian Basin of Texas.

FINANCIAL HIGHLIGHTS

	<u>1977</u>	<u>1976</u>	<u>Change</u>
Revenues	\$13,360,000	\$10,962,000	+ 22%
Earnings from Continuing Operations	1,709,000	923,000	+ 85%
Net Earnings	1,693,000	1,129,000	+ 50%
Per Common Share			
Earnings from Continuing Operations			
First Quarter	\$.29	\$.16	+ 81%
Second Quarter	.51	.24	+113%
Third Quarter	.31	.18	+ 72%
Fourth Quarter	.44	.26	+ 69%
	1.55	.84	+ 85%
Other Items (including capital gains)	(.01)	.18	—
Net Earnings	<u>\$1.54</u>	<u>\$1.02</u>	<u>+ 50%</u>
Cash Flow from Operations	\$2.76	\$1.97	+ 40%
Dividends	\$.25	\$.09	+178%



TO THE SHAREHOLDERS

On behalf of the Board of Directors of your company, I am pleased to report record consolidated revenues and earnings for 1977. Revenues were \$13,360,000, an increase of 22% over 1976 revenues of \$10,962,000. Earnings from continuing operations for the period were \$1,709,000., an increase of 85% over 1976 earnings of \$923,000. Earnings per share from continuing operations were \$1.55 as compared to \$.84 in 1976 and net earnings per share were \$1.54 compared to \$1.02 a year ago.

Our growth during 1977 reflects the continued demands of the markets we service and the expansion of our equipment and facilities to meet these demands.

The year 1977 saw further improvement in understanding between the Canadian oil and gas industry and the federal and provincial levels of government. This is evidenced by royalty and tax modifications and improved incentive programs which have greatly increased the tempo of exploration activity, particularly in Alberta. The increased activity allowed us to expand our volume of business in Canada accordingly.

In the United States, President Carter and his administration are working on the formation of an energy policy. Notwithstanding the uncertainty in the exploration and development industry, we increased our sales of pumps and other services.

As a result of increased earnings and cash flow your Directors increased the quarterly dividend from five cents to seven and one-half cents in the third quarter for a total of twenty-five cents in the year. This is in accordance with the stated policy of paying quarterly dividends aggregating approximately twenty-five percent of the previous year's earnings.

OPERATIONS

OIL PATCH RENTALS

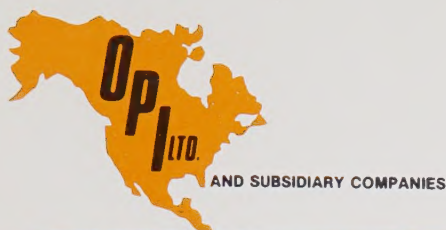
The increase in exploration activity in Canada enabled this division to set new records in equipment rentals and earnings. In 1977 we also spent a major portion of our entire capital budget on increasing the rental equipment inventory.

GIST PUMPS

This division also enjoyed a substantial increase in business activity. A warehouse and manufacturing addition was recently completed on the property purchased in 1976 and the administration facilities were enlarged to provide space for sales and engineering staff.

COUGAR TOOL

The Cougar division enjoyed a significant turn around from 1976 and made a positive contribution to the 1977 overall results. Income is being received from the North Sea and Middle East, in addition to that received in North America.



O P I MACHINE SHOP

This division increased its volume of business and manufactured all the Cougar tools sent to the North Sea and Middle East. Construction is well under way on an 8,500 square foot addition to increase machine shop capacity.

CENTRALIZER AND SCRATCHER

Although this division increased its volume of business, earnings did not respond accordingly. The division has been reorganized and is expected to contribute in 1978.

PEMBINA CONTROLS

On June 30, 1977 Pembina Controls Ltd. was sold to the management of that company. Pembina did not fit into the company's long range growth objectives.

THE FUTURE

The Province of Alberta recently announced an extension of its incentive program until March 31, 1981 and at the same time provided new incentives for deep drilling. This, coupled with rising prices, and recent finds in the West Pembina area have accelerated industry activity in Canada. As a consequence, our rental volume shows considerable growth over the comparable amount last year. We are therefore reassessing the market to determine what additional equipment will be needed by the industry in the immediate future.

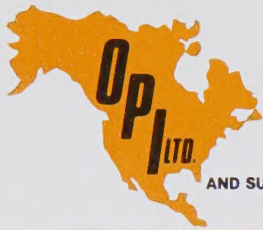
The Pump division is aggressively pursuing new markets for its products. The facilities have been enlarged and research is under way to increase the number of sizes of pumps being made. Overall we are optimistic that by mid 1978 this division will be in a position to increase its volume from a broader base which will provide for stability of earnings in the long run.

We are optimistic for the Cougar division in 1978. Tools will be in place in the Middle East and North Sea for the entire year versus only part of 1977. In addition the North American volume of business is budgeted for further increases, especially in Canada.

The O P I Machine Shop will have its additional capacity available early in 1978. Preliminary steps have been taken to increase the volume of business from the mining industry in addition to general oil field work. Accordingly we are forecasting an increase in profit contribution from this division.

The Centralizer and Scratcher division has been reorganized and with its volume of business will contribute modestly to earnings in 1978.

In summary, we are optimistic as to the business of the company in 1978. The underlying premise to our optimism is the fact that the demand for energy in North America is increasing and the various regulatory bodies are responding, albeit some more slowly than others.



AND SUBSIDIARY COMPANIES

DIVIDEND POLICY

In accordance with the stated policy of paying quarterly dividends aggregating approximately twenty-five percent of the previous year's earnings, a dividend of nine cents per share was declared payable December 31, 1977 to shareholders of record on December 15, 1977.

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At the last shareholders meeting the bylaws of the company were changed to increase the number of directors from nine to fifteen. New directors added during the year were G. W. Davies, Harry Hole, Doyle Little, Bruce H. Lloyd and the Honorable Ernest C. Manning, P.C. Their contribution to the overall affairs of the company, especially future plans, has been significant.

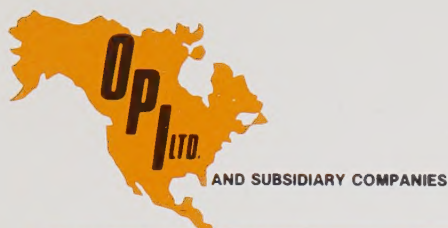
We wish to express our appreciation for the valued support of our customers and shareholders and to sincerely thank our employees for a job well done in 1977.

On behalf of the Board of Directors.

L. C. GARRIES

*President and Chief
Executive Officer.*

December 3, 1977.



FIVE YEAR REVIEW

	1977	1976	1975	1974	1973
FINANCIAL RESULTS					
Revenue	\$13,360,000	\$10,962,000	\$ 8,458,000	\$ 7,787,000	\$ 5,372,000
Earnings from					
continuing operations	1,709,000	923,000	365,000	437,000	302,000
Net earnings	1,693,000	1,129,000	391,000	494,000	370,000
Depreciation and amortization	1,209,000	1,095,000	883,000	788,000	708,000
Cash flow from operations	3,043,000	2,171,000	1,354,000	1,484,000	1,132,000
Capital expenditures — net	1,608,000	988,000	1,000,000	1,909,000	1,483,000
Dividends	276,000	99,000	—	—	—
YEAR END POSITION					
Working capital	\$ 3,378,000	\$ 2,416,000	\$ 1,683,000	\$ 1,317,000	\$ 1,285,000
Fixed assets — net	5,870,000	5,518,000	5,438,000	5,357,000	4,183,000
Total assets	11,725,000	11,577,000	10,288,000	9,759,000	7,619,000
Long-term debt	1,289,000	1,893,000	2,047,000	2,035,000	2,037,000
Shareholders' equity	6,953,000	5,536,000	4,506,000	4,115,000	3,162,000
STATISTICS PER SHARE					
Earnings from					
continuing operations	\$ 1.55	\$.84	\$.33	\$.41	\$.33
Net earnings	1.54	1.02	.35	.46	.40
Dividends	.25	.09	—	—	—
Cash flow from operations	2.76	1.97	1.23	1.34	1.22
Shareholders' equity	6.31	5.02	4.09	3.73	3.43

NOTE: The accounts of O P I Inc. are reflected in the review from 1974 being date of acquisition. Where material, certain figures for prior years have been restated to reflect the sale of Pembina Controls Ltd.



AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS FOR THE YEAR ENDED SEPTEMBER 30, 1977

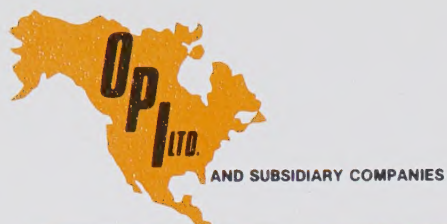
	1977	1976
REVENUE	<u>\$13,360,000</u>	<u>\$10,962,000</u>
COSTS AND EXPENSES		
Cost of sales and other expenses	8,762,000	7,861,000
Interest on long-term debt	222,000	271,000
Other interest	50,000	109,000
Depreciation and amortization	<u>1,209,000</u>	<u>1,095,000</u>
	10,243,000	9,336,000
	<u>3,117,000</u>	<u>1,626,000</u>
Income taxes		
Current	1,267,000	552,000
Deferred	<u>141,000</u>	<u>151,000</u>
	1,408,000	703,000
EARNINGS FROM CONTINUING OPERATIONS	1,709,000	923,000
Earnings (loss) attributed to discontinued operation (Note 6)	(16,000)	53,000
Gain on sale of property	<u>—</u>	<u>153,000</u>
NET EARNINGS	1,693,000	1,129,000
Retained earnings at beginning of year	3,423,000	2,393,000
	5,116,000	3,522,000
Dividends paid	<u>276,000</u>	<u>99,000</u>
RETAINED EARNINGS AT END OF YEAR	<u>\$ 4,840,000</u>	<u>\$ 3,423,000</u>
EARNINGS PER SHARE FROM CONTINUING OPERATIONS	<u>\$1.55</u>	<u>\$.84</u>
NET EARNINGS	<u>\$1.54</u>	<u>\$1.02</u>



AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED SEPTEMBER 30, 1977

	1977	1976
SOURCE OF WORKING CAPITAL		
From operations	\$ 3,043,000	\$ 2,171,000
Sale of property, plant and equipment	258,000	832,000
Long-term borrowings	2,024,000	602,000
Other assets	242,000	—
Discontinued operation	165,000	45,000
	<u>5,732,000</u>	<u>3,650,000</u>
APPLICATION OF WORKING CAPITAL		
Purchase of property, plant and equipment	1,866,000	1,820,000
Long-term debt	2,628,000	756,000
Dividends	276,000	99,000
Other assets	—	242,000
	<u>4,770,000</u>	<u>2,917,000</u>
INCREASE IN WORKING CAPITAL	962,000	733,000
Working capital at beginning of year	<u>2,416,000</u>	<u>1,683,000</u>
WORKING CAPITAL AT END OF YEAR	<u>\$ 3,378,000</u>	<u>\$ 2,416,000</u>



CONSOLIDATED BALANCE SHEET AS AT SEPTEMBER 30, 1977

ASSETS

	1977	1976
CURRENT ASSETS		
Cash	\$ 63,000	\$ —
Accounts receivable	3,163,000	3,255,000
Inventories		
Raw materials	662,000	640,000
Work-in-progress	171,000	155,000
Finished goods	1,545,000	1,431,000
Prepaid expenses	96,000	63,000
	<u>5,700,000</u>	<u>5,544,000</u>
 PROPERTY, PLANT AND EQUIPMENT (Note 2)	 5,870,000	 5,518,000
 OTHER ASSETS (Note 3)	 155,000	 515,000
	 <u>\$11,725,000</u>	 <u>\$11,577,000</u>

Signed on behalf of the Board

L. C. GARRIES

Director

F. N. HUGHES

Director



AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET AS AT SEPTEMBER 30, 1977

LIABILITIES

	1977	1976
CURRENT LIABILITIES		
Bank indebtedness	\$ 20,000	\$ 1,036,000
Accounts payable and accrued liabilities	1,213,000	1,257,000
Income taxes	390,000	371,000
Current maturities on long term debt	699,000	464,000
	<u>2,322,000</u>	<u>3,128,000</u>
LONG-TERM DEBT (Note 4)	<u>1,289,000</u>	<u>1,893,000</u>
DEFERRED INCOME TAXES	<u>1,161,000</u>	<u>1,020,000</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (Note 5)

Authorized		
2,000,000 Class A common shares of no par value		
2,000,000 Class B common shares of no par value		
Issued		
975,516 Class A common shares		
126,520 Class B common shares		
<u>1,102,036 Shares</u>	2,113,000	2,113,000
RETAINED EARNINGS	<u>4,840,000</u>	<u>3,423,000</u>
	<u>6,953,000</u>	<u>5,536,000</u>
	<u>\$11,725,000</u>	<u>\$11,577,000</u>



AND SUBSIDIARY COMPANIES

NOTES TO 1977 CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the company and its subsidiaries, all of which are wholly owned.

(b) Foreign Exchange

The accounts of the company's foreign subsidiaries have been converted to Canadian dollars on the following basis:

1. Current assets and current liabilities, at the rate of exchange as at the balance sheet date.
2. Other assets and liabilities at historical rates of exchange.
3. Revenue and expenses (except depreciation) at the average rate of exchange for the year.

Gains or losses on exchange conversion are included in or charged to income.

(c) Valuation of Inventories

Raw materials and work-in-progress are valued at the lower of cost and replacement cost. Finished goods are valued at the lower of cost and net realizable value.

(d) Depreciation

Depreciation has been provided using the straight-line method at rates calculated to amortize the cost of the assets, less salvage value, over their estimated useful life. For certain rental equipment useful life is estimated productive hours with provision for obsolescence. Rates in use for the principal classes of assets are:

Land improvements	20%
Buildings	5% to 10%
Rental equipment	6% to 33%
Manufacturing equipment, furniture and fixtures	20%
Automotive equipment	25%

(e) Comparative Figures

Where material, certain prior year figures have been restated to reflect the sale of Pembina Controls Ltd, referred to in Note 6.

2. PROPERTY, PLANT AND EQUIPMENT

	<u>COST</u>	<u>1977 ACCUMULATED DEPRECIATION</u>	<u>NET</u>	<u>1976 NET</u>
Land and improvements	\$ 234,000	\$ 73,000	\$ 161,000	\$ 171,000
Buildings	1,629,000	405,000	1,224,000	1,178,000
Rental equipment	6,503,000	2,780,000	3,723,000	3,209,000
Manufacturing equipment, furniture and fixtures	1,866,000	1,199,000	667,000	849,000
Automotive equipment	240,000	145,000	95,000	111,000
	<u>\$10,472,000</u>	<u>\$4,602,000</u>	<u>\$5,870,000</u>	<u>\$5,518,000</u>



AND SUBSIDIARY COMPANIES

3. OTHER ASSETS

	1977	1976
8½% Note receivable	\$ 219,000	\$ 444,000
Current maturities included in accounts receivable	<u>219,000</u>	<u>202,000</u>
	—	242,000
Patents, at cost less amounts amortized	61,000	66,000
Excess of cost of acquired businesses over fair value of underlying assets	<u>94,000</u>	<u>207,000</u>
	<u>\$ 155,000</u>	<u>\$ 515,000</u>

4. LONG-TERM DEBT

	1977	1976
Term loan, interest at 1% over Canadian prime rate	\$ 750,000	\$ 1,423,000
Term loans, interest at 1% over U.S. prime rate	705,000	375,000
9% Mortgages	495,000	509,000
Other	<u>38,000</u>	<u>50,000</u>
	1,988,000	2,357,000
Current maturities	<u>699,000</u>	<u>464,000</u>
	<u>\$ 1,289,000</u>	<u>\$ 1,893,000</u>

All Canadian indebtedness is secured by Canadian receivables, inventories and fixed assets as evidenced by a debenture and is amortized by monthly payments.

The U.S. indebtedness is secured by U.S. receivables, inventories and fixed assets and is amortized by monthly payments.

The estimated minimum principal payments required in the four years subsequent to 1978 are:

1979 — \$506,000	1981 — \$115,000
1980 — \$316,000	1982 — \$ 28,000

5. CAPITAL STOCK

At a meeting of the shareholders of the Company held on January 22, 1977, approval was given to a special resolution whereby the authorized capital stock of the company was increased to 4,000,000 common shares, being 2,000,000 Class A shares and 2,000,000 Class B shares and all then outstanding common shares were designated as Class A shares, with the holders of these shares being entitled to regular dividends. The Class A shares are subject to conversion at the holder's request into Class B shares, which are entitled to "tax-deferred" dividends. Each Class A share and each Class B share rank equally in all respects, enjoy the same voting rights and are convertible into each other at any time on a share for share basis.

The company has reserved 50,000 shares under a plan enabling the company to issue convertible promissory notes to employees. At September 30, 1977, no promissory notes had been issued.



AND SUBSIDIARY COMPANIES

6. DISCONTINUED OPERATION

Effective June 30, 1977 the company sold Pembina Controls Ltd. Revenues, earnings and loss on disposal of this subsidiary are noted hereunder.

	1977	1976
REVENUES	<u>\$ 1,108,000</u>	<u>\$ 1,222,000</u>
Net Earnings of subsidiary prior to sale	\$ 38,000	\$ 53,000
Loss on disposal, net of taxes of \$16,000	<u>54,000</u>	<u>—</u>
Earnings (loss) attributed to discontinued operation	<u>\$ (16,000)</u>	<u>\$ 53,000</u>

7. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Remuneration to directors and senior officers of the company and its subsidiaries totalled \$344,000 (1976 — \$214,000).

8. FEDERAL ANTI-INFLATION LEGISLATION

The company is subject to restrictions on dividends to its shareholders under the Federal Anti-Inflation legislation. Accordingly, dividends to the company's shareholders during the year ending October 13, 1978, the third compliance period of the legislation, may not exceed \$423,000.



AND SUBSIDIARY COMPANIES

Thorne Riddell & Co.

CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To The Shareholders of
O P I Ltd.

We have examined the consolidated balance sheet of O P I Ltd. as at September 30, 1977 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at September 30, 1977 and the results of its operations and the changes in its financial position for the year ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



Edmonton, Alberta
December 3, 1977

AR30



REPORT TO THE SHAREHOLDERS

FOR THE SIX MONTHS
ENDED MARCH 31, 1977

O P I LTD.
P.O. BOX 5770, STATION "L",
EDMONTON, ALBERTA.
T6C 4G2



O P I LTD.
CONSOLIDATED FINANCIAL SUMMARY

(Unaudited)

TO OUR SHAREHOLDERS:

Our volume and earnings for the first six months of the 1977 fiscal year exceeded our budget figures by a slight margin and prior year results by an even greater margin. Total volume was \$7,500,000 as compared to \$6,023,000 in 1976. Earnings from operations showed an even greater increase at \$912,000 or 83¢ per share as compared to \$460,000 or 42¢ per share.

The improvement in earnings reflects a better climate for the oil and gas industry in Canada resulting from Federal and Provincial realization of the necessity of increasing our rapidly diminishing energy reserves. We are also receiving a more wide spread acceptance of our products, both in North America and Overseas, which in turn enables us to better utilize our asset capacity.

Our forecast of industry activity for the last half of the current fiscal year and immediately thereafter is most encouraging. As a consequence your Directors have authorized expansion of the plants in Edmonton and Odessa.

The Directors have concluded that a 50% increase in the dividend rate is justified and within the Anti-Inflation Board guidelines and company policy. Therefore they have declared a third quarter dividend of 7.5¢ on Class A Shares out of earnings and a 7.5¢ tax deferred dividend on Class B Shares out of Capital Surplus (as defined in the Income Tax Act) for payment on June 30, 1977 to shareholders of record on June 15, 1977.

Yours truly,

L. C. Garries,
President.

May 9, 1977.

STATEMENT OF EARNINGS

	FOR THE SIX MONTHS ENDED MARCH 31	
	1977	1976
REVENUE	\$7,500,000	\$6,023,000
Cost of sales and other expenses	5,089,000	4,410,000
Interest	152,000	196,000
Depreciation	593,000	587,000
	<u>5,834,000</u>	<u>5,193,000</u>
Operating Profit	1,666,000	830,000
Income Taxes		
Current	668,000	183,000
Deferred	86,000	187,000
	<u>754,000</u>	<u>370,000</u>
EARNINGS BEFORE EXTRAORDINARY ITEM	912,000	460,000
Gain on Sale of Property	—	148,000
NET EARNINGS	<u>\$ 912,000</u>	<u>\$ 608,000</u>

EARNINGS PER SHARE

From Operations	83¢	42¢
Extraordinary Item	—	13¢
Net Earnings	<u>83¢</u>	<u>55¢</u>

CHANGES IN FINANCIAL POSITION

SOURCE OF FUNDS

From Operations	1,580,000	1,233,000
Sale of Property Plant and Equipment	65,000	465,000
Long Term Borrowing	1,500,000	500,000
Reduction in Notes Receivable	127,000	—
	<u>3,272,000</u>	<u>2,198,000</u>

APPLICATION OF FUNDS

Purchase of Property, Plant and Equipment	1,240,000	816,000
Reduction of Long Term Debt	1,654,000	340,000
Dividends	110,000	—
	<u>3,004,000</u>	<u>1,156,000</u>

INCREASE IN WORKING CAPITAL	<u>\$ 268,000</u>	<u>\$1,042,000</u>
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BALANCE SHEET

	MARCH 31	
	1977	1976
WORKING CAPITAL		
Current Assets	\$6,220,000	\$5,577,000
Current Liabilities	3,536,000	2,852,000
	<u>2,684,000</u>	<u>2,725,000</u>
Property, Equipment and Other Assets	6,498,000	5,691,000
	<u>9,182,000</u>	<u>8,416,000</u>
Long Term Debt	(1,739,000)	(2,207,000)
Deferred Income Taxes	(1,106,000)	(1,095,000)
	<u>\$6,337,000</u>	<u>\$5,114,000</u>
SHAREHOLDERS EQUITY		
Share Capital — 1,102,036 issued Shares	\$2,113,000	\$2,113,000
Retained Earnings	4,224,000	3,001,000
	<u>\$6,337,000</u>	<u>\$5,114,000</u>

AR30



REPORT TO THE SHAREHOLDERS

FOR THE SIX MONTHS
ENDED MARCH 31, 1978

OPI LTD.
P.O. BOX 5770, STATION "L",
EDMONTON, ALBERTA.
T6C 4G2



TO OUR SHAREHOLDERS:

O P I Ltd. achieved record results for the six months ended March 31, 1978. Revenues were \$7,961,000 as compared to \$6,729,000 in 1977. Net earnings were \$1,223,000 as compared to \$912,000 in 1977. Earnings per share were \$1.11 as compared to last year's figure of \$.83.

The improvement in earnings reflects the high level of activity experienced by the oil and gas industry in Western Canada this past winter. Also revenue and earnings by the Cougar Tool division from the Middle East continue to increase. Historically Canadian drilling activity declines in the summer months. However all indications are toward the most buoyant summer ever enjoyed by the industry in Canada.

The O P I Pump division has broadened its line of pumps and completed construction of a fabrication shop to build mobile well service units and skid mounted drilling pump packages. Orders on hand and inquiries for our well for the balance of 1978.

The Directors have declared a third quarter dividend of ten cents on Class A Shares out of earnings and a ten cent tax deferred dividend on Class B Shares out of capital surplus (as defined in the Income Tax Act) for payment on June 30, 1978 to shareholders of record on June 15, 1978.

Yours truly,

L. C. Garries,
President.

May 5, 1978

O P I LTD. CONSOLIDATED FINANCIAL SUMMARY

(Unaudited)

FOR THE SIX MONTHS
ENDED MARCH 31

STATEMENT OF EARNINGS

	1978	1977
REVENUE	\$7,961,000	\$6,729,000
Cost of Sales and Other Expenses	4,920,000	4,375,000
Interest	105,000	152,000
Depreciation	671,000	584,000
	<u>5,696,000</u>	<u>5,111,000</u>
Operating Profit	<u>2,265,000</u>	<u>1,618,000</u>
Income Taxes		
Current	1,000,000	647,000
Deferred	42,000	86,000
	<u>1,042,000</u>	<u>733,000</u>
EARNINGS FROM CONTINUING OPERATIONS	1,223,000	885,000
Discontinued Operation	—	27,000
NET EARNINGS	<u>\$1,223,000</u>	<u>\$ 912,000</u>
EARNINGS PER SHARE		
From Continuing Operations	\$ 1.11	\$.80
Net Earnings	<u>\$ 1.11</u>	<u>\$.83</u>

CHANGES IN FINANCIAL POSITION

SOURCE OF FUNDS		
From Operations	\$1,938,000	\$1,547,000
Sale of Equipment	91,000	60,000
Long Term Borrowing	191,000	1,500,000
Other Assets	—	127,000
Discontinued Operation	—	36,000
	<u>2,220,000</u>	<u>3,270,000</u>
APPLICATION OF FUNDS		
Property, Plant and Equipment	1,381,000	1,238,000
Reduction in Long Term Debt	282,000	1,654,000
Dividends	198,000	110,000
	<u>1,861,000</u>	<u>3,002,000</u>
INCREASE IN WORKING CAPITAL	<u>\$ 359,000</u>	<u>\$ 268,000</u>

BALANCE SHEET

	1978	1977
WORKING CAPITAL		
Current Assets	\$7,410,000	\$6,220,000
Current Liabilities	3,673,000	3,536,000
	<u>3,737,000</u>	<u>2,684,000</u>
Property, Equipment and Other Assets	6,641,000	6,498,000
	<u>10,378,000</u>	<u>9,182,000</u>
Long Term Debt	(1,198,000)	(1,739,000)
Deferred Income Taxes	(1,202,000)	(1,106,000)
Net Assets	<u>\$7,978,000</u>	<u>\$6,337,000</u>
SHAREHOLDERS' EQUITY		
Share Capital — 1,102,036 Issued Shares	\$2,113,000	\$2,113,000
Retained Earnings	5,865,000	4,224,000
	<u>\$7,978,000</u>	<u>\$6,337,000</u>